

Message Text

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ORIGIN OES-02

INFO OCT-01 SS-14 ISO-00 SP-02 NSC-05 NSCE-00 EA-06 OMB-01

CIAE-00 EB-03 NEA-07 EUR-08 DODE-00 L-01 PRS-01 INR-05

IO-03 PM-03 /062 R

DRAFTED BY OES:MKRATZER:NK
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S/P - J. KAHAN (SUBS)
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R 090048Z AUG 75
FM SECSTATE WASHDC
TO AMEMBASSY TOKYO
INFO AMEMBASSY TEHRAN
AMEMBASSY BONN
AMEMBASSY OTTAWA
USMISSION EC BRUSSELS
AMEMBASSY PARIS

C O N F I D E N T I A L STATE 188694

LIMDIS

E.O. 11652: N/A

TAGS: TECH JA

SUBJECT: URANIUM ENRICHMENT COOPERATION -- DISCUSSIONS WITH
JAPANESE OFFICIALS

REF: TOKYO

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SUMMARY: IN DISCUSSIONS WITH ACTING ASSISTANT SECRETARY
KRATZER, JAPANESE NUCLEAR INDUSTRY OFFICIALS IMAI AND
TAMIYA, EXPLAINED RESERVATIONS TOWARD UEA PROJECT.
KRATZER INFORMED THEM UEA IS IMPORTANT ELEMENT OF PRESI-

DENTIALLY APPROVED ENRICHMENT PROGRAM AND US HOPES JAPAN WILL GIVE SERIOUS AND EARLY CONSIDERATION TO PARTICIPATION, BUT FINAL DECISION IS UP TO JAPAN. EMBASSY WILL RESERVE DETAILED GUIDANCE TO ISSUES RAISED IN REFTEL BY SEPARATE MESSAGE. END SUMMARY

1. ON JULY 1, MESSR. IMAI AND TAMIYA, OFFICIALS OF JAPAN'S ENRICHMENT AND REPROCESSING GROUP, ACCOMPANIED BY US NUCLEAR CONSULTANT JOHN GRAY, CALLED ON ACTING ASST. SECRETARY KRATZER TO DISCUSS PRELIMINARY JAPANESE INDUSTRY REACTIONS TO US URANIUM ENRICHMENT PROPOSALS. IT WAS CLEAR FROM CONVERSATION THAT AT LEAST IMAI, WHO TOOK LEAD IN EXPRES-
SING JAPANESE VIEWS, CONTINUES TO HAVE RESERVATIONS ABOUT

UEA PROJECT. SPECIFICALLY, IMAI EXPRESSED VIEW THAT
(A) UEA STRUCTURE IN WHICH JAPAN AND OTHER FOREIGN INVESTORS WOULD HAVE ONLY MINORITY VOICE, DESPITE 60 MAJORITY OWNERSHIP, IS INEQUITABLE AND UNDESIRABLE;
(B) STRUCTURE IN WHICH OPERATING ORGANIZATION IS IN EFFECTIVE CONTROL OF AN ARCHITECT-ENGINEER WITHOUT PLANT OPERATING EXPERIENCE, AND WHICH, MOREOVER, "CONTRACTS WITH ITSELF" FOR A-E SERVICES IS HIGHLY IRREGULAR AND UNDESIRABLE; AND (C) FACT THAT U.S. GUARANTEES RUN ONLY TO U.S. INVESTORS GIVES FOREIGN INVESTORS, WHO WILL HAVE NO CONTROL OVER PROJECT LITTLE PROTECTION.

2. GIVEN THESE RESERVATIONS, PRINCIPAL INQUIRY, TO WHICH IMAI RETURNED REPEATEDLY IN VARIETY OF FORMS, WAS WHETHER U.S. WOULD INSIST ON OR SEEK TO IMPOSE STRONG PREFERENCE FOR JAPANESE INVESTMENT IN UEA AS CONTRASTED WITH OR AS PRIOR CONDITION TO OTHER ENRICHMENT PROJECTS; I.E. CENTRIFUGE PROPOSALS, UNDER EXPANSION PROGRAM. IN LATTER CONNECTION, IMAI, WITH SUPPORT FROM TAMIYA AND GRAY, CONTENDED THAT SPONSORS OF AT LEAST SOME CENTRIFUGE PROJECTS WERE PREPARED TO GO FORWARD WITH PROJECTS, INCLUDING CONTRACTING WITH FOREIGN CUSTOMERS, WITHOUT REQUIRING CORRESPONDING FOREIGN INVESTMENT.
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3. IN RESPONSE, KRATZER STRESSED THAT ENRICHMENT EXPANSION PROGRAM INVOLVED EXPLICIT PRESIDENTIAL DECISION TO CONTRACT WITH UEA. MOREOVER, UEA IS EXPECTED TO BE FIRST INCREMENT OF NEW CAPACITY, AND, SO FAR, IS ONLY PROJECT DEFINITELY SELECTED, WITH ANY CENTRIFUGE PROJECTS TO BE DECIDED UPON LATER ON BASIS OF PROPOSALS SUBMITTED TO ERDA'S INVITATION. THUS, UEA CONSTITUTES, BY PRESIDENTIAL DECISION, CENTRAL ELEMENT OF ENRICHMENT EXPANSION PROPOSAL, AND USG IS THEREFORE HOPEFUL THAT JAPAN AND OTHER POTENTIAL FOREIGN INVESTORS WILL SEE FIT TO PROCEED WITH SERIOUS DISCUSSIONS AND AFFIRMATIVE DECISION ON UEA INVESTMENT. AT SAME TIME, KRATZER INDICATED HE WAS AWARE OF NO INTENTION OR MEANS BY WHICH US

COULD EXERCISE ANY COMPULSION TOWARD THIS END. DECISION WOULD HAVE TO BE MADE BY JAPAN AND OTHER POTENTIAL INVESTORS ON BASIS OF THEIR OWN ASSESSMENT OF WHERE THEIR INTERESTS LIE.

4. IN RESPONSE SPECIFIC IMAI OBJECTIONS, KRATZER OBSERVED THAT HOLDING ONLY A MINORITY INTEREST IN MAJOR PROJECTS WAS THE RULE, NOT THE EXCEPTION, AND THAT HE COULD NOT SEE THAT THIS CONSTITUTED BASIS FOR JAPANESE CONCERN. KRATZER POINTED OUT THAT THERE ARE MANY PROTECTIONS IN

U.S. LAW AND IN NORMAL BUSINESS PRACTICE FOR MINORITY INVESTORS, WITH WHICH JAPANESE BUSINESS IS QUITE FAMILIAR. WITH SPECIFIC REFERENCE TO FACT THAT VOTING STRENGTH OF FOREIGN INVESTMENT INTERESTS WOULD HAVE TO BE SOMEWHAT REDUCED TO AVOID OVERALL CONTROL OF PROJECT BEING IN FOREIGN HANDS, KRATZER POINTED OUT THAT FRENCH HAD FOLLOWED SIMILAR COURSE ON EURODIF I. WHICH ALSO HAS MAJORITY FOREIGN INVESTMENT. IMAI AND TAMIYA ACKNOWLEDGED THIS WAS SO.

5. ON POINT OF BECHTEL'S DUAL ROLE AS ARCHITECT-ENGINEER AND PROJECT MANAGER, KRATZER NOTED THAT THIS CRITICISM APPEARED TO OVERLOOK GOODYEAR INVOLVEMENT IN PROJECT. MOREOVER, HE POINTED OUT THAT AS MINORITY INVESTORS, JAPANESE WOULD HAVE STRONG NEGOTIATING POSITION DURING NEGOTIATIONS WITH UEA, AND THIS OFFERED MAJOR OPPORTUNITY CONFIDENTIAL

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TO DEVELOP MUTUALLY SATISFACTORY ARRANGEMENTS ON PROJECT STRUCTURE WHICH WOULD PROTECT JAPANESE INTERESTS. WITH RESPECT TO USG GUARANTEES, KRATZER STATED THAT OPPORTUNITY TO INVEST IN PROJECT A MAJOR PORTION OF WHOSE INVESTMENT WAS SUBJECT TO GOVERNMENT GUARANTEE WAS OBVIOUSLY ADVANTAGEOUS TO ALL INVESTORS. HE ALSO EXPRESSED PERSONAL VIEW THAT GOJ WAS EQUALLY FREE TO OFFER INVESTMENT GUARANTEES TO PRIVATE JAPANESE INVESTORS. HE NOTED THAT, IN THIS REGARD AS COOPERATIVE PROJECT, RESPECTIVE GOVERNMENTS SHOULD BE VIEWED AS HAVING COMPARABLE ROLES; WITH RESPECT TO THEIR INTERESTED PRIVATE INVESTORS OR CUSTOMERS. U.S. GUARANTEE OF JAPANESE PRIVATE INVESTORS WOULD BE INCONSISTENT WITH THIS CONCEPT.

6. JAPANESE ALSO EXPRESSED RESERVATION AS TO EXISTENCE OF MARKET FOR BOTH UEA CAPACITY AND THAT OF PROPOSED CENTRIFUGE PROJECTS. THEY INQUIRED WHETHER, IF ADEQUATE MARKET TO SUPPORT ALL DOES NOT EXIST, CUSTOMERS WOULD BE STEERED TO UEA PROJECT BEFORE CONTRACTING WITH OR INVESTMENT IN CENTRIFUGE PROJECTS WOULD BE ENCOURAGED. KRATZER RESPONDED THAT PROGRAM WAS BASED ON ASSUMPTION THAT CAPACITY OF ALL PROJECTS WAS NEEDED, AND THAT IN VIEW OF PROJECTIONS SHOWING NEED FOR NEW ENRICHMENT CAPA-

CITY EQUIVALENT TO ONE DIFFUSION PLANT EVERY YEAR OR SO, THIS SEEMED ENTIRELY REASONABLE ASSUMPTION.

7. IMAI ALSO INQUIRED AS TO U.S. GOV'T. ROLE IN ANY DISCUSSIONS WITH UEA. KRATZER STATED THAT UEA NATURALLY WOULD BE THE PRINCIPALS IN SUCH DISCUSSIONS, BUT THAT AS PROSPECTIVE GUARANTORS OF PROJECT, USG STOOD READY TO LEND ITS GOOD OFFICES. HE POINTED OUT THAT WORD OF U.S.

DECISION ON PROJECT CAME FROM USG, AND THAT THIS WAS NOT BY ACCIDENT. IMAI STATED THAT U.S. GOVERNMENT ROLE IN TALKS WAS ESSENTIAL, SINCE MANY OF JAPANESE CONCERNS WOULD BE ADDRESSED TO ASPECTS OF THE PROJECT WHICH WOULD BE DIRECTLY AFFECTED BY USG POLICIES. WITH RESPECT TO TIMING OF TALKS, IMAI SUGGESTED THAT IT WOULD BE BEST TO LET SOME TIME PASS BEFORE COMMENCEMENT, IN ORDER FOR SITUATION IN U.S. TO BECOME SOMEWHAT CLEARER. KRATZER RESPONDED THAT FOREIGN AND DOMESTIC INTERESTS WERE VERY CLOSELY RELATED, CONFIDENTIAL

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AND THE EARLIER DISCUSSIONS GOT UNDERWAY, THE EARLIER THE ISSUES WOULD BE CLARIFIED. HE IMPLIED THAT WHILE JAPAN WAS FREE TO MAKE ITS OWN DECISION, IT DID HAVE AN OBLIGATION AT LEAST TO ENTER INTO EARLY AND SERIOUS DISCUSSIONS. IMAI APPEARED TO AGREE TO THIS, STATING THAT FIRST STEP WOULD BE PREPARATION OF SERIES OF QUESTIONS FOR TRANSMITTAL TO DEPT. KRATZER OBSERVED THAT USG HAD OFFERED TO SEND TWO-MAN ERDA/STATE TEAM TO TOKYO FOR JUST THIS PURPOSE (REF B), BUT OFFER HAD APPARENTLY NOT YET REACHED IMAI OR TAMIYA. KRATZER MADE IT CLEAR THAT QUESTIONS COULD BE TRANSMITTED VIA EMBASSY, BUT IMAI LEFT IMPRESSION THAT HE MIGHT EMPLOY ANOTHER ROUTE.

8. AS ABOVE ACCOUNT INDICATES, IMAI TOOK ALMOST ENTIRE INITIATIVE IN DISCUSSIONS. ON FEW OCCASIONS WHEN HE PARTICIPATED ACTIVELY, TAMIYA SEEMED TO HAVE MORE OPEN MIND, BUT HE, TOO, RETURNED SEVERAL TIMES TO BASIC THEME OF EXTENT TO WHICH USG WOULD COMPEL "UEA" SOLUTION.

9. DISCUSSION ONCE AGAIN RAISES ISSUE OF EXTENT TO WHICH IMAI SPEAKS FOR JAPANESE INDUSTRY. AS EMBASSY WELL AWARE, WHILE THERE IS NO SINGLE SPOKESMAN, IMAI'S BATTING AVERAGE IS GOOD AND HE OBVIOUSLY HAS CONSIDERABLE INFLUENCE WITH SENIOR ATOMIC INDUSTRY OFFICIALS. THUS, CONCLUSION IS INESCAPABLE THAT JAPANESE PARTICIPATION IN PROJECT IS FAR FROM ASSURED. IMAI, AT LEAST, AND THROUGH HIM, PERHAPS OTHERS IN JAPANESE NUCLEAR COMMUNITY, HAVE OBVIOUS BIAS TOWARD CENTRIFUGE TECHNOLOGY, UNDOUBTEDLY COMPOUNDED BY SPECIFIC RESERVATIONS ON UEA CITED EARLIER. NEVERTHELESS, IMAI WAS CAREFUL TO RULE NOTHING OUT, AND AGREED THAT USG INVOLVEMENT IN PROJECT CREATED DIFFERENT SITUATION.

10. IN SUBSEQUENT DISCUSSIONS WITH UEA OFFICIALS WHO HAD ALSO HAD CONVERSATIONS WITH IMAI AND TAMIYA, IT WAS LEARNED THAT JAPANESE HAD RAISED SIMILAR QUESTIONS, AND RECEIVED SIMILAR RESPONSES FROM UEA.

11. EMBASSY WILL BE PROVIDED DETAILED GUIDANCE ON SPECIFIC ISSUES ON FOREIGN INVESTMENT PROTECTION AND LIMITS RAISED IN REFTEL BY SEPARATE MESSAGE NOW BEING DEVELOPED, CONFIDENTIAL

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IN MEANTIME, EMBASSY SHOULD FOLLOW GUIDANCE PROVIDED BY THIS MESSAGE IN DISCUSSING JAPANESE PARTICIPATION IN URANIUM ENRICHMENT EXPANSION PROGRAM. IN SUMMARY, U.S. POSITION IS THAT WHILE DECISION ON PARTICIPATION IN UEA OR ANY OTHER PROJECT UNDER PROGRAM IS OBVIOUSLY JAPAN'S TO MAKE, AND U.S. WILL EXERCISE NO COERCION IN THIS REGARD, UEA PROJECT IS EXPECTED TO BE FIRST INCREMENT OF EXPANSION PREDICATED AS IT IS ON WELL PROVEN AND ADVANCED GASEOUS DIFFUSION PROCESS. JAPANESE PARTICIPATION IN THIS PROJECT WILL, ACCORDINGLY, BE MOST WELCOME. IN ADDITION TO POINTS MADE IN PARA 5 ABOVE, U.S. VIEWS FOREIGN INVESTMENT AS PROTECTED THROUGH ABILITY OF USG TO TAKE OVER PRIVATE PLANT IF NEEDED, REPLACE PRIVATE FIRMS AS THE "U.S. BLOCK", AND COMPLETE THE VENTURE. KISSINGER

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 26 AUG 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INVESTMENT GUARANTEES, MEETINGS, PROGRAMS (PROJECTS), URANIUM
Control Number: n/a
Copy: SINGLE
Draft Date: 09 AUG 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE188694
Document Source: ADS
Document Unique ID: 00
Drafter: OES:MKRATZER:NK
Enclosure: DG ALTERED
Executive Order: N/A
Errors: n/a
Film Number: D750276-0191
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t197508100/baaaarpi.tel
Line Count: 246
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ORIGIN OES
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 23 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 APR 2003 by CunninFX>; APPROVED <29 SEP 2003 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> gwr 971002
Subject: n/a
TAGS: EMIN, TECH, JA, US, TECH
To: TOKYO INFO TEHRAN
BONN
OTTAWA
EC BRUSSELS
PARIS
Type: TE

Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006